



Carolina Telephone
Centel-North Carolina
Centel-Virginia
United Telephone-Southeast

James B. Wright
Senior Attorney

November 12, 1997

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Docket No. 97-00888 (Universal Service)
UTSE Direct Testimony

Dear Mr. Waddell:

Pursuant to the October 31, 1997 Stipulation in the above case, enclosed for filing are an original and thirteen copies of the Direct Testimony of United Telephone-Southeast, Inc. on Phase I issue numbers 1, 5, and 7-9.

Please contact me or Laura Sykora (919/554-7323) if you have any questions regarding this filing.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Wright /s m".

James B. Wright

JBW:er

CC: Laura Sykora (with enclosure)
Steve Parrott (with enclosure)
Bob Wallace (with enclosure)
Counsel of Record (with enclosure)

#12769

CERTIFICATE
Universal Service Fund
(Docket No. 97-00888)

The undersigned hereby certifies that a copy of the prefiled direct testimony of United Telephone-Southeast, Inc. served in the above docket is being provided to each of the following, by placing a copy of the same in the United States Mail postage prepaid and addressed as follows:

Guy M. Hicks
BellSouth Telecommunications, Inc.
333 Commerce St., Suite 2101
Nashville, TN 37201-3300

William Ellenberg/ Bennett Ross
BellSouth Telecommunications, Inc.
Suite 4300
675 West Peachtree Street, NE
Atlanta, Georgia 30375

T. G. Pappas/ John Hayworth
Attorneys for Coalition of Small LECs
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238-2700

Carolyn Tatum Roddy
Sprint Communications Co. L.P.
3100 Cumberland Circle
Atlanta, GA 30339

Richard M. Tettlebaum
Citizens Telecom
Suite 500
1400 16th Street NW
Washington, DC 20036

Jon E. Hastings
Attorney for MCI
Boult, Cummings, Connors & Berry
414 Union St., Suite 1600
Nashville, TN 37219

Vincent Williams
Consumer Advocate Division
404 James Robertson Parkway
Nashville, TN 37219

Charles B. Welch/Tony Thompson
Attorneys for Time Warner
Farris, Mathews, Gilman
511 Union St., Suite 2400
Nashville, TN 37219

James Lamoureux
AT&T
Room 4068
1200 Peachtree Street, N.E.
Atlanta, Ga. 30309

Val Sanford
Attorney for AT&T
Gullett, Sanford, Robinson & Martin
230 Fourth Avenue North, 3rd Floor
Nashville, TN 37219-8888

Henry Walker
Attorney for NextLink and ACSI
Boult Cummings, Conners & Berry
414 Union Street, Suite 1600
Nashville, TN 37219

Fred L. Terry, General Manager
Highland Telephone Cooperative Inc.
P. O. Box 119
Sunbright, TN 37872

Pam Melton
Attorney for LCI
8180 Greensboro Drive
Suite 800
McLean, VA 22102

Wayne Gasgaway
Manager
DeKalb Telephone Cooperative
P. O. Box 347
Alexandria, TN 37012

Glen B. Sears, General Manager
West Kentucky Rural Telephone Cooperative
237 North 8th Street
Mayfield, KY 42066

D. Billye Sanders
Attorney for TCG MidSouth
P. O. Box 198966
Nashville, TN 37219-8966

H. LaDon Baltimore (Attorney for WorldCom)
Suite 320
211 Seventh Avenue N
Nashville, TN 37219-1823

F. Thomas Rowland
North Central Telephone Coop.
P. O. Box 70
Lafayette, TN 37083-0070

W. T. Sims
Manager
Yorkville Telephone Cooperative
Yorkville, TN 38389

Richard Cys (Attorney for NextLink)
Davis Wright Tremaine
1155 Connecticut Avenue NW
Suite 700
Washington, DC 20036

Richard Smith, President
Standard Communications Co.
302 Sunset Drive
Suite 101
Johnson City, TN 37604

James W. Dempster
(Attorney for Ben Lomand Rural Telephone Coop.)
P. O. Box 332
McMinnville, TN 37111-0333

Daniel M. Waggoner (Attorney for NextLink)
Davis Wright Tremaine
2600 Century Square
1501 Fourth Avenue
Seattle, WA 98101-1685

Thomas J. Curran
Director External Affairs
360 Communications Company
8725 W. Higgins Road
Chicago, IL 60631

Nanette Edwards
Regulatory Affairs Manager
DeltaCom
700 Blvd. South, Suite 101
Huntsville, AL 35801

Ellen Bryson
Bledsoe Telephone Coop.
5010 Hodgkins Plaza
Dilburn, GA 30047

Proctor Upchurch
Attorney for Bledsoe Telephone Coop.
P. O. Box 3549
Woodmere Mall
Crossville, TN 38557-3549

Jack McFadden
Department of Finance & Administration
Telecommunications Policy & Planning
598 James Robertson Parkway
Nashville, TN 37243-0560

Bryan McCarty
Attorney for TEA Legal Services
501 Second Avenue N
Nashville, TN 37201-1099

Joe Reeves
WorldCom and LCI
Suite 320
211 Seventh Avenue N
Nashville, TN 37219

Gif Thornton
Attorney for BellSouth Cellular
424 Church Street
28th Floor
Nashville, TN 37219-2380

Sheila Davis
Chaz Taylor Inc.
3401 West End Avenue
Suite 318
Nashville, TN 37203

Robert D. Dudney
General Manager
Twin Lakes Telephone Cooperative Corp.
P. O. Box 67
Gainesboro, TN 38562

Mark Pasko/ Michael Romano
Swidler & Berlin
Atty. for AVR d/b/a Hyperion of TN
3000 K Street NW, Suite 300
Washington, DC 20007-5116

Dr. Peggy Smith
Chair. Tennessee EdLine
801 Second Avenue N
Nashville, TN 37201

Dana Shaffer
NextLink Tennessee
105 Molloy Street
Suite 300
Nashville, TN 37201

Phillip Carver
BellSouth Telecommunications
675 West Peachtree Street
Atlanta, GA 30375

William C. Carriger
Atty. for Electric Power Bd. of Chattanooga
400 Keyatel Building
One Union Square
Chattanooga, TN 37402

Denise Newman
Phoenix Network Inc.
1687 Cola Blvd.
Bolden, CO 80401

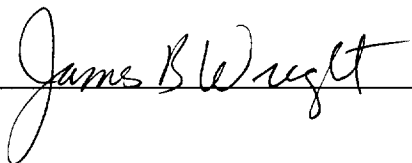
Jane Walters
TN Dept. of Education
6th Floor, Gateway Plaza
710 James Robertson Parkway
Nashville, TN 37243-0375

Dan Elrod & Ken Bryant
Attorneys for GTE Mobilnet
Nashville City Center, 25th Floor
511 Union Street
Nashville, TN 37219

Ozle Allen
Tennessee Co-Ops
5755 Short Mountain Road
McMinnville, TN 37110

Archie Hickerson
Consumer Advocate
2nd Floor, Cordell Hull Bldg.
425 Fifth Avenue North
Nashville, Tn 37219

This 12th day of November, 1997

A handwritten signature in cursive script, reading "James B. Wright", is written over a horizontal line.

#12775

DIRECT TESTIMONY
OF
LAURA A. SYKORA
ON BEHALF OF
UNITED TELEPHONE-SOUTHEAST, INC.
DOCKET 97-00888

FILED
JUN 11 1998
FBI - MEMPHIS

1 Q. Please state your name and business address.

2 A. My name is Laura A. Sykora and my business address is 14111 Capital Boulevard,
3 Wake Forest, North Carolina, 27587-5900.

4

5 Q. By whom are you employed and what is your position?

6 A. I am employed by Sprint's Mid-Atlantic Operations as the Regulatory Affairs
7 Manager - TN and am testifying in this proceeding on behalf of United Telephone -
8 Southeast, Inc. (referred to as Sprint).

9

10 Q. Please briefly outline your education, training and experience in the telephone
11 industry.

12 A. My educational background includes a bachelor of Business Administration degree
13 in Accounting from East Tennessee State University. Upon completion of my
14 undergraduate degree in 1980, I was employed by Price Waterhouse as a Staff
15 Accountant. In June 1982, I was employed by the First Tennessee Human
16 Resource Agency as Fiscal Officer and in September 1982, I joined Color
17 Technologies, Inc., as Comptroller.

1 In May 1984, I was employed by Sprint's regional local exchange company in
2 Bristol, Tennessee as a Junior Accountant in the General Accounting Department.
3 In September 1984, I became an Associate Accountant in the Revenue Accounting
4 Department and was primarily responsible for administration of the Carrier Access
5 Billing System. In August 1986, I was named Cost of Service Administrator and in
6 August 1988, Cost of Service Manager with responsibility for cost of service
7 studies to support regulated service offerings. In August 1990, I was appointed to
8 the position of Rate Planning and Tariff Manager and in November 1991, Manager-
9 Regulatory Matters and Consumer Services, where my primary responsibilities were
10 the development of rates and tariffs for local exchange and toll service, coordinating
11 preparation for regulatory proceedings, and research supporting regulatory policies
12 for Sprint's local operating territory in Tennessee, Virginia and South Carolina.

13
14 In July 1993, I was named to my current position. My responsibilities include
15 development of rates and tariff filings for Tennessee intrastate local exchange,
16 access services, intrastate/intraLATA and interstate/intraLATA toll services for
17 Sprint. Additionally, my responsibilities include addressing state regulatory issues,
18 research to support regulatory policy, and coordination of responses to Tennessee
19 Regulatory Authority staff requests and intervenor interrogatories.

20

21 Q. Have you previously testified before regulatory agencies?

22 A. Yes, I have testified before the Tennessee Regulatory Authority (TRA) and the
23 Tennessee and South Carolina Public Service Commissions.

1

2 Q. What is the purpose of your testimony?

3 A. The purpose of my testimony is to present Sprint's position on issues 1, 5, 7, 8 and
4 9, which a majority of the parties stipulated as appropriate for presentation of oral
5 testimony in this phase of the Universal Service proceeding. Attached as Exhibit
6 LAS1 is an extract from the Stipulation filed by these parties in this docket on
7 October 29, 1997 (hereafter referred to as Stipulation) related to these same
8 universal service issues.

9

10 Q. Please define and determine what services are to be supported by a Tennessee
11 Universal service support system? (Issues 1. and 1.c.)

12

13 A. Sprint agrees with the Stipulation that the following services should be supported
14 by a Tennessee universal service support system (items 1-8 are from the Federal
15 definition; items 9 and 10 are from the Tennessee statute):

- 16 (1) Single party service;
17 (2) voice grade access to public switched network;
18 (3) DTMF signaling or its functional equipment;
19 (4) access to 911 emergency services;
20 (5) access to operator services;
21 (6) access to interexchange service;
22 (7) access to directory assistance;
23 (8) toll control or toll blocking for qualifying low income customers;
24 (9) Lifeline;
25 (10) Link-up Tennessee.

26 The Parties to the Stipulation agree that primary lines for basic residential service
27 should be supported.

1

2 Sprint notes that Tennessee law regarding Universal service (TCA 65-5-207) states
3 that universal service consists of residential basic local exchange telephone service
4 with no distinction as to primary or secondary residential lines. Therefore
5 secondary residential lines should receive support from the Tennessee universal
6 service support system to the extent that the rates do not recover the cost less any
7 federal universal service support. It is within the TRA's authority to increase rates
8 for the secondary residential lines in this proceeding to recover the cost of
9 providing the service if it wishes to remove the need for funding of these secondary
10 lines from the Universal Service Fund (TCA 65-5-207).

11

12 Sprint supports single connection business lines receiving support from the
13 Tennessee universal service support system to satisfy the health and safety issues of
14 small businesses and to insure rates to the small business customers remain
15 affordable in high cost service areas.

16

17 Q. Should the TRA adopt the state or Federal definition for services subject to support
18 by the Tennessee universal service support mechanism? (Issue 1.a.)

19 A. As detailed above and in the Stipulation, the TRA should integrate the two
20 definitions with a clarification on toll limitation to recognize the current technical
21 limitations related to toll control.

22

1 Q. Should the Tennessee universal service support mechanism be expanded to services
2 beyond those mandated by the FCC? (Issue 1.b.)

3 A. The only services which should be added to the FCC's mandated services are to
4 maintain the intrastate educational discounts, as outlined in the attached Stipulation.

5
6 Educational discounts are currently being provided by Incumbent Local Exchange
7 Carriers (ILECs) and Interexchange Carriers (IXCs) to qualifying schools and
8 libraries. In order to insure competitively neutral funding and incentives for
9 Competitive Local Exchange Carriers (CLECs) and other competitive providers of
10 these services, the TRA should establish an explicit universal service support
11 mechanism that would be portable to the provider of the service in the educational
12 markets. Without the portable subsidy support, CLECs are not given an incentive
13 to provide services in this market due to the significant discounts currently in place
14 for ILECs and IXCs.

15

16 Q. Does Tennessee Relay Center need to be addressed in this proceeding? (Issue 1.d.)

17 A. No, it does not. As stated in the Stipulation, a separate generic case proceeding
18 should be initiated to develop a competitively neutral funding mechanism.

19 Sprint does not consider the current funding for the Tennessee Relay Center, which
20 is based upon intrastate/intraLATA and intrastate/interLATA minutes of use, to be
21 competitively neutral. Even though the speech and hearing impaired users of this
22 service place calls on this network that originate and terminate within their local
23 calling scope, there is not a funding source based upon the local usage of the

1 system. Also, the current funding of this service is implicitly contained in the
2 administrative overhead costs of the companies providing the intrastate/intraLATA
3 and intrastate/interLATA services, rather than an explicit subsidy identifiable by the
4 end users on their bills.

5
6 Q. Do public interest payphones, if determined to be necessary, need to be addressed
7 in this proceeding. (Issue 1.e.)

8 A. No. This issue should be addressed in another proceeding, as agreed to in the
9 Stipulation.

10

11 Q. How does the TRA designate service areas for rural and non-rural areas? (Issue
12 5.a.)

13 A. As stated in the Stipulation, "The Act defines the service areas of rural carriers in
14 Section 214(e)(5) which should control until such time as these areas are redefined
15 by the TRA."

16

17 It is Sprint's position the CLEC operating in rural ILEC territory should be required
18 to provide service only in the contiguous portion of the rural ILEC's territory, not
19 in the entire service area of the rural ILEC. As an example, a carrier serving middle
20 Tennessee and competing with Citizens Telecom in Cookeville should not also be
21 required to serve Citizen's Dresden exchange in northwest Tennessee in order to
22 receive Eligible Telecommunications Carrier (ETC) status. The CLEC should only

1 be required to provide service in all of Citizen's contiguous operating area in
2 Putnam and Cumberland counties.

3
4 This position is supported in the FCC Docket 96-45, Order 97-157 dated May 8,
5 1997, paragraph 190 which states, " We also conclude, based on additional
6 information presented to us in response to the Recommended Decision, that
7 universal service policy objectives may be best served if a state defines rural service
8 areas to consist only of the contiguous portion of a rural study area, rather than the
9 entire rural study areas. We conclude that requiring a carrier to serve a non-
10 contiguous service area as a prerequisite to eligibility might impose a serious barrier
11 to entry, particularly for wireless carriers. We find that imposing additional burdens
12 on wireless entrants would be particularly harmful to competition in rural areas,
13 where wireless carriers could potentially offer services at much lower costs than
14 traditional wireline service."

15
16 Sprint supports the use of the Census Block Group as the appropriate unit of
17 geography for the service area for non-rural carriers. If the unit of geography were
18 as large as the wire center, there would be great opportunity for cream-skimming.
19 Within a wire center there can be wide variations in cost. The area closer to the
20 central office is usually more densely populated and lower in cost. Within the same
21 wire center there are often more rural, more sparsely populated areas farther from
22 the wire center which have higher costs. If the serving area were to be the wire
23 center and the proxy cost for that wire center averaged over the lower and higher

1 costs, the temptation would be for the CLEC to come in and serve only the lower
2 cost areas closer to the central office. They would then receive the higher,
3 averaged subsidy while only serving the lower cost areas. The ILEC would then be
4 left with serving the higher cost areas, but only receiving the lower, averaged
5 subsidy which would probably be insufficient to meet costs.

6
7 Q. Should an ETC be required to provide service throughout its designated service
8 area? If so, what services must the ETC provide? (Issue 5.b.)

9 A. An ETC must provide the services defined in response to Issue 1 in my testimony
10 throughout the designated universal service area through a combination of its own
11 facilities and resale. On July 17, 1997, Sprint filed a Petition for Reconsideration
12 with the FCC regarding the level of facilities required to satisfy the facilities
13 requirement of the Act. The FCC found in its Order dated May 8, 1997, that a
14 carrier could satisfy the facility requirement by providing its own access to operator
15 services, and obtaining the remainder of the service through resale. The implication
16 (if not intent) of this definition is that a CLEC can qualify for USF support if it
17 resells ILEC basic services, but provides its own operator services. Sprint asserts
18 that the result would be to both undermine the Commission's determination that
19 USF support should not be afforded to resellers and to place the underlying facility
20 carrier at significant financial risk. Sprint has, therefore, urged the FCC to
21 reconsider its definition of the level of facilities a carrier is required to provide to
22 receive USF support.

1

2 Q. How do we determine if rates are affordable? (Issue 7.) If current rates are set
3 using existing statutes, are rates considered affordable? (Issue 7.a.)

4 A. As a price regulated company, United Telephone-Southeast, Inc.'s current rates are
5 affordable. Price regulated companies are subject to TCA 65-5-209(a) which
6 states, "Rates for telecommunications services are just and reasonable when they
7 are determined to be affordable as set forth in this Section." Subsection (c) defines
8 determination of affordable rates upon entry into price regulation and Subsection
9 (e) defines the parameters underwhich rates are maintained as affordable.

10

11 Sprint believes that prices for services defined as universal service should be
12 allowed to approach costs as closely as possible with targeted universal service fund
13 support for those customers located in high cost areas and low income customers.
14 TCA 65-5-207(c)(8)(ii) gives the TRA the ability to adjust rates to "... the extent to
15 which rates for residential Basic Local Exchange Telephone Service should be
16 required to meet the standards of Section 65-5-208(c)." TCA 65-5-208 (c) states,
17 "Effective January 1, 1996, an incumbent local exchange telephone company shall
18 adhere to a price floor for its competitive services subject to such determination as
19 the commission shall make pursuant the Section 65-5-207. The price floor shall
20 equal the incumbent local exchange telephone company's tariffed rates for essential
21 elements utilized by competing telecommunications service providers plus the total
22 long-run incremental cost of the competitive elements of the service." Sprint

1 believes that as prices for basic service approach cost, affordability can be
2 maintained.

3
4 Sprint believes that prices for services meeting the definition for universal service
5 support should be raised to the lesser of the price floor defined in TCA Section 65-
6 5-208 (c) or the statewide average urban rate. The use of the statewide average
7 urban rate would comply with Section 254 (b)(3) of the Act which states,
8 “Consumers in all regions of the Nation, including ... high cost areas should have
9 access to telecommunications and information services...that are available at rates
10 that are reasonably comparable to rates charged for similar services in urban areas.”
11 Sprint supports a phased-in approach to these price increases.

12
13 Q. Must the TRA use Federal standards for affordability? (Issue 7.b.)

14 A. No. TCA 65-5-209 insures that rates for price regulated companies will continue to
15 be affordable.

16
17 Q. How does the TRA define implicit and explicit subsidies? Determine definition
18 (Issues 8. and 8.a.)

19 A. Implicit subsidy means there is support for services deemed to be advantageous to
20 the public, but the exact amount of that support has not been determined and is not
21 identifiable by the end user customer. Explicit subsidy is a support that is calculable
22 and identifiable by the end user.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

Q. How does the TRA determine implicit subsidies in current rates? (Issue 8.b.)

A. The TRA should determine the funding requirement for the Tennessee universal service support mechanism and the net financial impact on each of the carriers. Carriers are required by TCA 65-5-207 (c) (5) to rebalance rates based upon the net financial impact. Therefore, the carriers would submit rate design plans that would remove implicit subsidies from services priced above cost, e.g. access charges and business trunk rates.

Q. How does the TRA make implicit support explicit as defined by the Act and the FCC? (Issue 8.c.)

A. In order to meet the requirement of the Telecom Act for "specific, predictable, and sufficient" universal service support mechanisms, the TRA should first determine the appropriate costing methodology to be utilized in determining the cost of universal service, determine the cost of universal service, establish guidelines for companies to contribute to and draw from the new fund and then direct incumbent LECs to determine the net financial impact of the fund. Once the net financial impact of the Universal Service Fund is known, a LEC should be allowed to propose rate rebalancing plans to the TRA, in accordance with TCA 65-5-207 (c) (5), supported by the necessary cost studies to insure that proposed prices are not below the price floor for the service.

1 Q. Should universal service cost studies be company-specific or generic? (Issue 9.a.)

2 A. Universal service cost studies should be company-specific.

3

4 Q. What is the proper territorial scope of universal service rates (e.g., statewide by
5 carrier, by service area, or by category of support?) (Issue 9.b.)

6 A. Section 254 (b) (3) of the Telecom Act states “Consumers in all regions of the
7 nation...should have access to telecommunications and information services...at
8 rates that are reasonably comparable to rates charged for similar services in urban
9 areas.” Sprint suggests a phased-in approach moving rates to the lesser of the price
10 floor in 65-5-208(c) or the state average urban rate would best serve Tennessee
11 residents.

12

13 Q. What is the proper level to which deaveraging should be applied in the cost studies?
14 (Issue 9.c.)

15 A. In order to determine the cost of universal service for administration of the explicit
16 support mechanism, costs should be aggregated at the census block group level, as
17 explained on earlier in my testimony regarding issue 5.a..

18

19 Q. Should rural and non-rural study areas be combined or separated in the cost
20 studies? (Issue 9.d.)

21 A. Sprint supports cost determination at the census block group level by company,
22 separately for rural and non-rural companies. The census block group level is

1 granular enough to allow identification as to rural or non-rural service provider for
2 that area.

3

4 Q. Which network components are necessary to provide services included in universal
5 service? (Issue 9.e.)

6 A. The basic network components for universal service are loop, switching and
7 transport as well as any switching software for services such as touch tone and toll
8 blocking.

9

10 Q. Should universal service cost studies be based on cost studies for permanent UNE
11 prices? (Issue 9.f.)

12 A. In Paragraph 206 of the FCC's May 8, 1997 Order in Docket 96-45, the FCC
13 "encourage(s) a state to use the same cost methodology to the extent possible for
14 both its universal service program and its pricing of unbundled network elements."
15 The Benchmark Cost Proxy Model (BCPM) is sponsored by Sprint, BellSouth and
16 USWest for universal service costing. BCPM is currently being designed to
17 incorporate UNE capable costing. Sprint currently does not have a cost model that
18 calculates both universal service and UNE costs.

19

20 Q. Should costs be developed on a combined or intrastate basis? (Issue 9.g.)

21 A. In order to "preserve universal service, protect consumer welfare, be fair to all
22 telecommunications services providers, and prevent the unwarranted subsidization
23 of any telecommunications services provider's rates by consumers or by another

telecommunications service provider” (TCA 65-5-207(b)), the TRA should develop cost on an unseparated or combined basis by census block group. The per line intrastate funding requirement should be calculated by taking the maximum allowable rate for universal service plus the subscriber line charge less the universal service cost less any universal service funding support.

To calculate the cost on an intrastate basis results in universal service funding which is not competitively neutral. Developing cost on an intrastate basis results in the local exchange carrier being left to fund the difference between intrastate and unseparated cost and the federal subsidy received.

Q. Should state specific or federal factors be used in the cost studies? (Issue 9.h.)

A. Company-specific long run incremental cost factors, where available, should be used in the cost studies to most closely reflect a carrier’s costs of operating in a particular service area.

Q. Is it possible to create a hybrid model from the individually proposed models? (Issue 9.i.)

A. While it may be possible to create a hybrid model, a hybrid model would require considerable time, expertise and expense to create and maintain.

Q. Which revenues should be included in the revenue benchmark? (Issue 9.j.)

A. Sprint supports the establishment and use of an affordable rate benchmark rather than a revenue per line benchmark. TCA 65-5-207 (a) states that “Universal

1 service, consisting of residential basic local exchange telephone service at
2 **affordable rates** ... must be maintained after the local telecommunications markets
3 are opened to competition.” (Emphasis added) Section 254 (b) (1) states “Quality
4 services should be available at just, reasonable, and **affordable rates**.” (Emphasis
5 added)

6
7 The universal service subsidy should be the amount of the cost for that service that
8 the provider is unable to recoup from the recipient of that service. Revenue from
9 other sources has no bearing on the issue. To include in the equation discretionary
10 income from non-basic services like custom calling features, toll, and access is to
11 cause the provider of the service to fund part of the universal service subsidy
12 through implicit subsidies in the discretionary services.

13
14 Q. What time period should be used to calculate the revenue benchmark? (Issue 9.k.)

15 A. Sprint opposes the use of a revenue benchmark, as explained above.

16
17 Q. Please summarize your testimony.

18 A. Sprint proposes the definition for Tennessee’s universal service support mechanism
19 to be based upon the federal definition with the addition of Lifeline and Link-up
20 services as required by Tennessee Law. Sprint also agrees with secondary
21 residential lines and single connection business lines being supported by the
22 Tennessee universal service support mechanism. The TRA should not further
23 expand the definition of universal service, but should insure there is a competitively

1 neutral funding mechanism for current school and library discounts that is portable
2 to all providers of these discounted services.

3
4 In determining the appropriate service area for non-rural carriers, Sprint supports
5 the use of the Census Block Group to encourage competition in these non-rural
6 areas. Use of the Census Block Group for the universal service support mechanism
7 addresses the cost of the area served by the ILEC or CLEC without competitively
8 advantaging or disadvantaging either carrier. In determining the service area for
9 rural ILECs, Sprint believes the FCC designated study area is appropriate. For
10 rural CLECs, the contiguous service area of the rural ILEC is the appropriate
11 service area for CLEC ETC designation.

12
13 The rates of United are currently affordable as determined by the provisions of TCA
14 65-5-209. The TRA has the authority within this proceeding to set rates at the
15 lesser of the price floor detailed in TCA 65-5-208 (c) or the statewide average
16 urban rate as supported in language in Section 254 (b) (3) of the Telecom Act.
17 Sprint supports a phased in approach to these price increases. Sprint supports
18 either of these rates as being affordable in accordance with TCA 65-5-207 (a) and
19 Section 254 (b)(1) of the Telecom Act. The Lifeline program provides assistance
20 to low income subscribers to whom the price floor or average urban rate may not
21 be affordable.

1 The TRA should determine the appropriate cost methodology in Phase II of this
2 Docket. The cost methodology should be applied on a company specific basis using
3 company specific cost factors where available to most closely represent the
4 unseparated cost of providing service in a census block group area. The per line
5 funding requirement would then be calculated by taking the maximum allowable
6 rate for universal service plus the federal subscriber line charge less the universal
7 service cost less any federal universal service funding support. The financial impact
8 by carrier would then be calculated and carriers would propose plans in accordance
9 with TCA 65-5-207 (c) (5) to rebalance rates.

10
11 Sprint supports an end user surcharge for the universal service support as the only
12 true explicit funding mechanism.

13
14 Q. Does this conclude your testimony?

15 A. Yes, it does.

**STIPULATION ON ISSUES
1, 5, 7, 8 AND 9**

1. Define and determine what services are to be supported by a Tennessee Universal service support system?

Stipulation: The following services should be supported by a Tennessee universal service support system (items 1-8 are from the Federal definition; items 9 and 10 are from the Tennessee statute):

- (1) Single party service;
- (2) voice grade access to public switched network
- (3) DTMF signaling or its functional equipment;
- (4) access to 911 emergency services;
- (5) access to operator services;
- (6) access to interexchange service;
- (7) access to directory assistance;
- (8) toll control or toll blocking for qualifying low income customers;
- (9) Lifeline;
- (10) Link-up Tennessee.

The Parties agree that primary lines for basic residential service should be supported.

Contested Issue: Should secondary residential lines and/or single lines for business receive support from the universal service support system?

- a. Do we use state or Federal defined services?

Stipulation: The Federal definition should be used with the addition of the two items from the Tennessee statute, and clarification on toll limitations to recognize the technical limitations associated with toll control (see above).

- b. Should we provide support in addition to Federal mandated services?

Stipulation: No. Additional services should not be supported at this time except to maintain the educational discounts existing on the effective date of TCA §65-5-208(a)(1).

- c. What are the universal service core elements?

Stipulation: See response to Issue 1.

- d. Does Tennessee Relay Center need to be addressed in this proceeding?

Stipulation: No. The TRA should initiate a separate generic case proceeding to develop a competitively neutral recovery mechanism for Telephone Relay Service. The Parties agree that the mechanism should appear as a separate line item on end-user bills.

- e. Do public interest payphones, if determined to be necessary, need to be addressed in this proceeding?

Stipulation: No. The Parties agree that this issue should be addressed in the pending payphone docket, Docket 97-00409, or another proceeding.

5. Define service areas.

Stipulation: See Stipulation to Issue 5(a).

a. How does the TRA designate service areas for rural and non-rural areas?

Stipulation: The Act defines the service areas of rural carriers in Section 214(e)(5) which should control until such time as these areas are redefined by the TRA. Service areas served by non-rural carriers should generally be defined as an area no larger than a wire center, but should not preclude a Census Block Group ("CBG").

Contested Issue: Should non-rural service areas be defined as "wire center", or a "CBG"?

b. Should ETC and service area be the same: If not, what are alternatives?

Stipulation: For rural incumbent carriers, the ETC and the service area (or FCC designated study areas) are the same. For non-rural carriers, ETC and service area are the same if the service area is no larger than a wire center.

Contested Issue: Should the service areas for CLECs applying for ETC status in a rural areas be defined as only the contiguous service areas of the rural ILEC?

c. Should rural carriers be required to file proposed service area and can others comment on that filing?

Stipulation: This is a moot point for incumbent rural carriers as the proposed service areas are defined by the Act. Rural CLEC carriers should be required to file a proposal subject to comment.

d. Determine if there are any unserved areas in Tennessee.

Stipulation: The Parties are unaware of any areas where customers' service requests are not being met.

7. How do we determine if rates are affordable?

Contested Issue.

a. If current rates are set using existing statutes, are rates considered affordable?

Contested Issue.

b. Must the TRA use Federal standards for affordability?

Contested Issue.

- c. If so, how do we gather information and apply the Federal standards in this case?

Contested Issue.

8. How does the TRA define implicit and explicit subsidies?

Contested Issue.

- a. Determine definition

Contested Issue.

- b. How does the TRA determine implicit subsidies in current rates?

Contested Issue.

- c. How does the TRA make implicit support explicit as defined by the ACT and the FCC?

Contested Issue:

9. Preliminary Cost Modeling Issues.

Stipulation: The Parties agree and mutually request that only items 9(b), (j) and (k) be addressed in Phase I of this proceeding. The other times should be addressed in Phase II. Additionally, the Parties recommend that in Issue 9(j), the term "network elements" be replaced with the term "service revenues".

Contested Issue: No stipulation was reached on the answers to these issues.

- a. Should universal service cost studies be company-specific or generic?

Contested Issue.

- b. What is the proper territorial scope of universal service rates (e.g., statewide by carrier, by service area, or by category of support?)

Contested Issue.

- c. What is the proper level to which deaveraging should be applied in the cost studies?

Contested Issue.

- d. Should rural and non-rural study areas be combined or separated in the cost studies?

Contested Issue.

- e. Which network elements are necessary to provide services included in universal service?

Contested Issue.

- f. Should universal service cost studies be based on cost studies for permanent UNE prices?

Contested Issue.

- g. Should costs be developed on a combined or intrastate basis?

Contested Issue.

- h. Should state specific or federal factors be used in the cost studies?

Contested Issue.

- i. Is it possible to create a hybrid model from the individually proposed models?

Contested Issue.

- j. Which revenues should be included in the revenue benchmark?

Contested Issue.

- k. What time period should be used to calculate the revenue benchmark?

Contested Issue.